



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

PROPOSAL FOR DECISION

OIL & GAS DOCKET NO. 06-0276911

COMMISSION CALLED HEARING TO PROVIDE ACIREMA CORPORATION
AN OPPORTUNITY TO SHOW CAUSE WHY THE PLUGGING EXTENSIONS
FOR THE BARNES, JETTIE (07225) LEASE, WELL NOS. 2, 4, 9 AND 11 SHOULD
NOT BE CANCELLED

APPEARANCES

FOR ACIREMA CORPORATION

Whitney Tharp, Attorney at Law
C. J. Green, Acirema Corporation

FOR COMPLAINANT

None

PROCEDURAL HISTORY

Dates of hearing:	July 5, 2012 June 6, 2013
Heard by:	Terry J. Johnson, Legal Examiner Andres J. Trevino, Technical Examiner
Date record closed:	June 11, 2013

SUMMARY

Complaint alleges that Acirema lacks a good faith claim to operate the subject lease. Complainant did not appear at re-opened hearing, where evidence established *prima facie* good faith claim. The record supports conclusion that the operator holds a good faith claim.

BACKGROUND

COMPLAINT

This docket originated with a complaint filed by Debra Christian against operators

M-C Production & Drilling Co., Inc. (MC), Acirema Corporation (Acirema) and Togs Energy, Inc. (Togs). All three companies are owned and controlled by David Michael Chandler.

Ms. Christian is a descendent of mineral estate owners who executed a 1931 oil and gas lease on the Gregg County acreage that is currently held by four regulatory leases operated by Mr. Chandler's companies. MC is the operator of record for the Christian, R. (06574) and the Christian, B. C. (07231) leases. Togs is record operator of the Jones, George (07555) lease. Acirema operates the Barnes, Jettie (07225) lease.

Ms. Christian's complaint alleges that the companies do not hold a good faith claim to operate the identified leases. A hearing on the merits of the complaint was initially held on July 5, 2012.

The record in the case was re-opened after a review of the audio recording of hearing revealed that the recording was distorted by electronic interference. Because the complaints against Togs and MC were ultimately severed from the case at hand, the re-opened hearing focused only on the complaint against Acirema.

SEVERANCE

Tog's P-5 came due for annual renewal in July 2012. Togs—who operated leases in addition to the George Jones lease that was subject to the good faith claim complaint—had been notified that its P-5 would not be renewed because multiple wells on those leases were determined to be out of compliance with Commission rules. Togs requested and received a separate docket to challenge this non-renewal determination. Since the dispute over Tog's good faith claim to the George Jones lease was also a factor in the renewal of Tog's P-5, that component of the original complaint was severed from the instant case and joined to Tog's non-renewal case, Docket No 20-0279073.

MC's annual P-5 renewal came due in August 2012. Like Togs, MC also operated other leases with non-compliant wells. And like Togs, MC requested a hearing over renewal of its P-5. As with Togs, the issue of MC's good faith claim to the two Christian leases was a factor in the renewal of its P-5. Consequently, that portion of the original complaint was severed from this case and joined to the issues in MC's non-renewal, Docket No. 20-0279564.

Accordingly, the case at hand presents the sole issue of whether Acirema holds a good faith claim to operate the Jettie Barnes lease.

RE-OPENED HEARING

By agreement of the parties, on April 3, 2013 a re-opened hearing was set for June 6, 2013. The parties—who had been notified that the previous recording had failed—were expressly advised that the purpose of the re-opened hearing was to receive evidence on the good faith claim complaint relating to the Jettie Barnes lease. Acirema appeared at hearing through counsel. The complainant did not appear.

OPERATOR'S CASE

Acirema presented a copy of the July 6, 1931 oil and gas lease executed by T. G. Jackson, Jettie Barnes and Mary Dee Barnes as lessors in favor of lessee Fleming-Kimball Corporation. This base lease, which covers the acreage in dispute, contains a 5-year primary term and a 90-day cessation clause. When executed in 1931, the lease contained no pooling authority.

Acirema entered other exhibits to demonstrate that MC acquired the Barnes lease in October 1993 from the bankruptcy estate of the previous operator, Buckingham Oil Company, Inc. The record also shows that from 1993 to 1994, MC gained lease assignments from Jack Koestline and Team Invest, Inc. During this period, MC obtained quitclaim deeds from multiple interest-holders in the dissolved entity Greggton Oil Company, which held rights to the Barnes lease.

The record also shows that MC gained a February 1994 amendment to the base lease which granted pooling authority for the involved acreage. An October 1995 amended unit declaration was offered to support Acirema's claim that the Barnes lease is included within the acreage assigned to the J. M. Christian gas unit. Other exhibits support Acirema's claim that this gas unit has reported continuous production since January 1995. Finally, Acirema introduced an exhibit to show that MC transferred the Barnes lease to Acirema, effective October 2001.

DISCUSSION

Acirema is not required to prove the absolute validity of the 1931 base lease or that of all intervening transfers and assignments.¹ It need only make a "reasonably satisfactory showing of a good-faith claim" to a right to operate the lease in question.² Commission rules define a good faith claim as a "factually supported claim based on a recognized legal theory to a continuing possessory right in the mineral estate".³

Acirema's proof established that the Jettie Barnes acreage was first leased in 1931 and that, through various intervening instruments of conveyance, MC became the record operator in 1993. The subject lease, amended in 1994 to authorize pooling, was subsequently pooled with the acreage that was assigned to the J. M. Christian Gas Unit in 1995. The Jettie Barnes acreage has since then been held by continuous production of gas from that unit.

This evidence is sufficient to establish a *prima facie* case that Acirema holds a good faith claim to the Jettie Barnes lease. The record in the case contains no evidence that contradicts this showing. Accordingly, this record will support the conclusion

¹ *M-C Production and Drilling Co., Inc.*, Docket No. 20-0279564 (Final Order September 24, 2013)

² *Magnolia Petroleum Co. v. Railroad Comm'n*, 141 Tex. 96, 170 S.W.2d 189, 191 (Tex. 1943)

³ 16 TEX. ADMIN. CODE § 3.15(a)(5)

that Acirema holds a good faith claim to operate the Jettie Barnes lease.

RECOMMENDATION

It is recommended that the Commission adopt the findings and conclusions set out below and enter an order that dismisses the underlying complaint as it relates to Acirema.

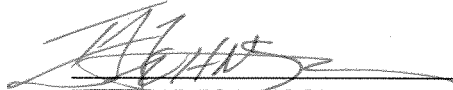
FINDINGS OF FACT

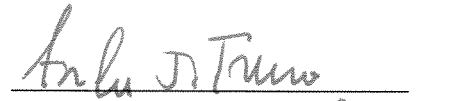
1. Acirema Corporation (Acerima) holds Operator Number 003577.
2. The July 6, 1931 oil and gas lease (the base lease) executed by lessors T. G. Jackson, Jettie Barnes and Mary Dee Barnes in favor of lessee Fleming-Kimball Corporation governs the acreage in dispute.
3. The acreage in dispute is covered the Barnes, Jettie (07225) lease in Gregg County, Texas.
4. Acirema is the current record operator of the Barnes, Jettie (07225) lease.
5. Complainant Debra Christian alleges that Acirema does not have a good faith claim to operate the lease.
6. Acirema acquired its interest in the lease by assignment from M-C Production & Drilling Co., Inc. (MC) effective October 1, 2001.
7. MC acquired its interest in the lease through an October 1993 conveyance from the bankruptcy estate of the previous operator, Buckingham Oil Company, Inc.
8. During the period 1993-1994, MC gained additional interests in the lease through multiple conveyances from diverse persons and entities.
9. In February 1994, the base lease was amended to grant pooling authority to the lessee.
10. In October 1995, the subject lease's acreage was pooled with acreage assigned to the J.M. Christian Gas Unit, which has reported continuous production since that time.
11. Complainant did not appear at the re-opened hearing in this case and the record contains no evidence to contradict Findings No. 1 through No. 10.
12. The record evidence establishes a *prima facie* case that Acirema holds a good faith claim to operate the Barnes, Jettie (07225) lease.

CONCLUSIONS OF LAW

1. Resolution of the subject dispute is a matter within the jurisdiction of the Commission. TEX. NAT. RES. CODE § 85.051
2. Acirema Corporation holds a good faith claim to a continuing possessory right in the mineral estate of the Barnes, Jettie (07225) lease. 16 TEX. ADMIN. CODE § 3.15(a)(5)

RESPECTFULLY SUBMITTED on this the 20th day of November, 2013


TERRY J. JOHNSON
Legal Examiner


ANDRES J. TREVINO
Technical Examiner 